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EIGHTH CENTO MINISTERIAL COUNCIL SESSION
Tehran, April 10, 1960POLITICO-ECONOMIC SITUATION OF IRAN
Background PaperI. SUMMARY

Despite widespread dissatisfaction for varying and conflicting reasons and frequent reports of plots and counterplots, there is no hard evidence that there is any group in Iran with the present capability of overthrowing the Shah's government. There are some signs of progress in the reform field but such progress is slow in coming and even slower in its impact upon the general populace, which is inclined to look at things in a very personal sense. The controversial land reform bill has aroused both hostility among the conservative elements and some skepticism in urbane, educated groups. The Shah and other Iranian leaders continue to be concerned over Soviet pressures on Iran, the ramifications for Iran of the forthcoming Summit Conference, the U.S. role in CENTO, the magnitude of U.S. military and economic assistance and U.S. press criticism of Iran.

II. POLITICAL SITUATIONA. The Shah's Position

The Shah continues to control almost every aspect of governmental affairs in his country. His mood varies from one of deep gloom over the state of Iran's relations with the Soviet Union and with the U.S., to one of firmness with regard to Soviet pressures and satisfaction over Iran's alignment with the West. He has taken some steps to rectify centuries-old abuses, but most reform is more apparent than real, at least so far as the general populace is concerned. There are continuing reports of plots by dissident groups, but all of these seem to be of manageable proportions. The Shah speaks openly of the removal of hundreds of corrupt officials, but even if true, these removals have not been directed at the most notorious members of the Shah's entourage and family. Whether the Shah could do more than he has done is a moot point. Most observers are inclined to believe that he could despite certain political risks. The conduct of the coming parliamentary elections may permit a better evaluation. Some freedom of choice would probably buttress the Shah's position.

B. The Nature of the Opposition

It is difficult to gauge the depth of opposition to the Shah because of its diverse nature. Iranians take a highly individualistic view of developments and normally react favorably or otherwise on the basis of how each event affects themselves and their families. Generally speaking, dissatisfaction is most widespread among the growing middle classes who, because of their better education, are able to grasp more fully the inequities in Iranian life. One dissatisfied person may object to the lack of democratic freedoms in Iran; another may criticize the Shah for not being

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stronger and in effect more authoritarian; yet another dislikes the government because he does not have a prominent role in it. The most important factor in the equation is the attitude of the military forces, particularly junior officers. The Shah has moved directly to counter dissatisfaction here by the removal of senior incompetent officers and concomitant promotions, but the army is so clique-ridden that it is difficult to assess the overall impact of such moves. On the basis of available evidence, there has been no coalescence of opposition forces, either military or civilian, which would portend at present a successful coup.

C. The Reform Program

After the Iraqi coup of July 1958 the Shah announced dramatically a reform program which, if carried through, would permeate every aspect of Iranian life. He moved quickly and energetically to reform the Gendarmarie which is the rural police force. The effect has been most salutary. He has also removed certain officials, civilian and military, but the reasons for these removals remain largely obscure to the public which is inclined to view them as simply part of the ever-shifting pattern in Iranian official life. Legislation directed against corruption and influence peddling in government has been passed, but implementation is uncertain. The Shah's own land reform program continues and a countrywide land reform bill is presently being considered by the Parliament. The problem here is not land redistribution as such so much as providing services to new landholders to supplant those traditionally obtained from feudal landlords. The most dramatic step the Shah could take in a political sense would be to remove some of the notoriously corrupt members of his family or his immediate entourage. To date, he has been unwilling to take this step.

III. ECONOMIC SITUATION

A. The Development Program

Although Iranians grumble almost constantly at the lack of progress on the economic development front, many competent foreign observers believe that Iran has embarked upon a sound program which will present concrete results in the future. The difficulty stems primarily from the highly personalized view taken by the average Iranian. To him the development program is not a success until he has benefited personally from it. Although there were signs earlier in the year that the administering body for the development program, the Plan Organization, would be changed fundamentally from an implementing agency to a purely planning organ, this has not taken place. The new Managing Director of the Plan Organization is carrying on much as before but without the authority enjoyed by his predecessor, the redoubtable Mr. Ebtehaj.

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B. Economic Danger Signs

There are signs that Iran is facing increasingly difficult inflationary and balance-of-payments problems. Cost of living has risen by about ten per cent over the last year and there was a drawdown of foreign exchange reserves of almost \$50 million in the Iranian year ending March 1959. In the year just ended, the drawdown may exceed \$55 million. In essence, the problem arises from the Iranian government's attempt to do too much too fast in the public sector. A concomitant to this is a large, rapid and uncontrolled expansion of private credit. While the situation appears superficially good at present, our missions in Tehran are sufficiently disturbed to recommend that the U.S. reduce gradually its military and economic assistance programs, as the only available means of persuading the Iranians to adopt sounder economic and financial policies. Recognizing the considerable political risks involved in such a course of action, U.S. missions have also recommended that these risks be minimized by a series of less costly and smaller impact projects. Some projects of this nature are now underway. Many competent Iranian officials are well aware of these adverse economic indicators, but they believe that the imposition now of drastic import and exchange controls might reverse a potentially healthy and developing economy. Some recommend that government expenditures outside the development field be curtailed and that private credit restrictions be imposed through the establishment of a central banking system. The most useful immediate step would probably lie in IMF consultations, but the central bank is reluctant to request these until its Governor has been reappointed to a new term.

IV. EXTERNAL RELATIONS

A. United States-Iranian

United States-Iranian relations, while outwardly very good, have been strained recently by press criticism of Iran. Being deeply suspicious of foreign motives by nature, they view U.S. attitudes toward Iran as being unclear and imprecise and, therefore, suspect. Despite frequent explanations, the Iranians remain convinced that the U.S. government could stop unfavorable stories if it wished to do so.

B. Soviet-Iranian

The Iranians are under no illusions as to the reality of Soviet intentions toward their country. They do differ as to how their country should cope with Soviet pressures and subversive activities. Even though Iran has been exposed since February 1959 to an unceasing and abusive Soviet propaganda campaign, one school of thought openly supports neutralism and a rapprochement with the Soviet Union. The Shah and government, representing the pro-Western forces, maintain staunchly that Iran is irrevocably aligned with the West, and they have, in fact, stood up firmly in the face of Soviet

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pressures. Inwardly, even pro-Western Iranians have doubts as to the wisdom of this course of action. They view anxiously the Khrushchev-Eisenhower exchange and the forthcoming Summit Conference. They wonder whether Iran should not make some gesture toward the Soviet Union in order to keep in step with Iran's Western friends, particularly the U.S. This anxiety will probably increase as a result of the proposed Turco-Soviet exchange of visits.

C. Arab-Iranian

Iran has no particular problem with any Arab country other than Iraq at present. There is, however, no affection between the Iranians and the Arabs. Iran both fears Arab unity as interpreted by Nasser and sees it as an obstacle to Iranian aspirations in the Persian Gulf. With respect to Iraq, Iran is generally apprehensive. Iran would prefer neither a pro-Nasser nor a pro-communist government in Baghdad. In any event, Iran feels that it has a real grievance over Iraq's sovereignty over and unilateral control of navigation (supported by a 1937 treaty) on the Shatt-el-Arab, the river upon which Iran's chief commercial and oil-loading ports are located. Although tensions have subsided for the moment and Iraq and Iran plan to exchange new ambassadors, relations are unlikely to improve substantially.

D. Afghan-Iranian

The Iranians are genuinely concerned about the extent of Soviet penetration into Afghanistan. In addition, they use this to buttress their arguments for contingency planning against indirect aggression and a command structure in the CENTO framework. Irano-Afghan relations have suffered for many years as a result of a controversy over the use of the waters of the Helmand River which runs for most of its course through Afghanistan but which empties into Iran. Both sides have misinterpreted a 1951 Neutral Commission report as an arbitral award rather than the factual study which it is. As a result, the Afghans insist that the Neutral Commission report be the only negotiating document while the Iranians are equally emphatic in their refusal to negotiate upon the basis of the report. This controversy has now come to a head because of Afghan plans to build a diversion dam in the lower Helmand valley near its delta in Iran. There is an implication that if the U.S. does not help on this project, the Afghans will turn to the Russians. The U.S. has offered to help with the financing of a survey of both countries' needs in the lower Helmand valley, but only if they reach some prior understanding. Afghan Prime Minister Daud recently visited Tehran and Iranian Prime Minister Eqbal will soon visit Kabul, but no solution appears in sight.

E. Other

Iran enjoys close and friendly relations with its fellow CENTO members, Turkey, Pakistan and Great Britain, though there is a deep and

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abiding suspicion of the latter because of past relationships. Germany, Japan and Italy are active commercially in Iran but their influence is not great. France retains only cultural ties. Iran recognizes Nationalist China and has virtually no contact with Red China. Indian-Iranian relations have been marred in the past by Indian blandishments on the joys of neutralism. Prime Minister Nehru, however, did not take this line during his last visit to Tehran, probably because of his own problems with the communist bloc. Other relationships are relatively unimportant.

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EIGHTEEN CENTO MINISTERIAL COUNCIL SESSION
Tehran, April 28-30, 1960

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Position Paper

U.A.R. DEVELOPMENTS

(To be raised only at foreign initiative)

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Anticipated Foreign Position:

1. UK-UAR diplomatic relations were resumed on December 2, 1959 and the British appear ready to seek a modus vivendi with President Nasser and Arab nationalism. However, the British continue to suspect Nasser's motives in Iraq and to interpret renewed UAR propaganda attacks against Jordan as connoting UAR designs against Jordanian integrity. The UK is inclined to believe that the US may be extending the UAR a greater degree of support than is currently warranted and may over-estimate the extent to which UAR-Western cooperation is feasible. The British nevertheless have made clear that they recognize the desirability of the US doing what it can with President Nasser.

2. The Turks mistrust UAR activities in the Arab world and continue to believe that President Nasser is following a policy of unbridled aggrandizement. Iranian suspicion of the UAR is less strong, and the atmosphere of UAR-Iranian relations is thus less strained.

3. President Nasser's state visit to Pakistan, April 10-16, has served to mark a further improvement in relations between those two countries as desired by the Pakistanis. President Nasser's public reception in Pakistan was friendly but not enthusiastic and his private contacts are believed to have been cordial.

Recommended U.S. Position:

The United States assumes that President Nasser still seeks a position of primary political leadership among the Arab countries. Recurrent UAR propaganda attacks against Arab neighbors, notably Iraq and Jordan, appear to be designed to this end. President Nasser seems to recognize the desirability of devoting an increasing amount of attention to UAR domestic affairs. He appears satisfied that Soviet assistance can be accepted without seriously impairing the neutral posture of the UAR and is continuing to oppose Communist influence in the Near East. In this connection, it is worth recalling that the UAR anti-Communist campaign began after, not before, the Soviet offer to construct the first stage of the Aswan High Dam.

The US does not consider that broad understanding with Nasser is possible. We do continue to feel, however, that a measure of Western cooperation, involving no major new commitments, is helpful (a) to assure the maintenance of the UAR anti-Communist posture; and (b) to demonstrate that there is a Western alternative to complete UAR dependence on the Communist Bloc. In this spirit, we are continuing a modest technical assistance program as well as surplus agricultural sales for which clear economic and humanitarian, as well as political, justification exists.

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